
Answers

Section B

Marks

1 Christos

- (a) The following criteria should be considered when deciding whether an individual is employed or self-employed:

- Financial risk
- Control exercised
- Place of work
- Provision of equipment
- Payment method
- Entitlement to employment benefits
- Work performance and correction of unsatisfactory work

ANY FOUR factors – ½ mark each, maximum 2

(b) Taxable income for 2015

	€	€	
Business income			
Income from architectural plans development		70,000	½
Less: Allowed expenses			
Rent paid for the office	(6,000)		½
Running costs of the office	(4,650)		½
Mobile phone bills (€60 x 12 months x 60% business use)	(432)		1
Car running cost (not allowed)	0		1
Capital allowances:			
Computer hardware (20% x €1,500)	(300)		½
Computer software (fully allowed in 2014)	0		1
Saloon car (not eligible)	0		½
		(11,382)	
Trading income		58,618	
Less: Personal allowances			
Social insurance contributions	(7,000)		½
Life insurance premium (restricted to 7% of sum assured)	(7,000)		1
	(14,000)		
Restricted to 1/6th of net income (1/6 x €58,618)		(9,770)	1
Taxable income		48,848	
			<u>8</u>
			<u>10</u>

2 (a) Beaten Ltd – Value added tax (VAT) for the quarter ended 30 June 2015

	€	€	
Output VAT			
Cash sales (90% x €18,300 x 19%)	3,129		1
Credit sales (90% x €28,500 x 19%)	4,873		1½
Understatement of sales on a previous VAT return (€800 x 19%)	152		1
		8,154	
Input VAT			
Purchases (€25,400 x 19%)	(4,826)		½
Impaired debts written off	0		1
Entertaining (€800 – €500) x 9%	(27)		1
		(4,853)	
Net VAT payable		3,301	
			<u>6</u>

Tutorial notes:

1. Where a discount is offered for prompt payment, the output VAT is calculated on the selling price less the amount of discount offered.

2. VAT impaired debt relief can only be reclaimed when at least 12 months has elapsed since the time that the payment was due.
3. Input tax cannot be reclaimed on client entertaining.

(b) A voluntary correction of errors may be made by a VAT registered trader where an erroneous VAT return has been submitted in the past, in which a higher or lower amount of VAT payable or repayable has been stated.	1/2
If the net value of the errors made (underpayments of VAT less overpayments of VAT) in previous VAT returns does not exceed €1,708, then a correction may be made by correcting them on the VAT account and the next VAT return, provided the erroneous VAT returns are less than three years old.	1 1/2 1
By making a voluntary correction of errors, it is possible to avoid a potential future VAT assessment by the Department of Taxation, and a charge to additional tax and interest, which may be made where such errors are discovered by the Tax Department.	1
	4
	10

3 (a) Skynet Holdings Ltd – Capital gains tax payable on the sale of shares in Tremendous Ltd

	€	€	
Disposal proceeds – May 2015:			
– Cyprus immovable property (80% x €330,000)		264,000	1
– Ackland immovable property (outside the scope of Cypriot capital gains tax)		0	1
Less: Acquisition cost:			
– Cyprus immovable property – May 2004 (80% x €160,000)	(128,000)		1
Add: Indexation allowance (€128,000 x (115.34/97.16) – €128,000)	(23,951)		1
		(151,951)	
		112,049	
Less: Capital loss brought forward		(10,650)	1/2
Chargeable gain		101,399	
Capital gains tax liability at 20%		20,280	1/2
			5

(b) Marialena – Chargeable gain on the sale of land in Platres village

	€	€	
Disposal proceeds January 2015 (€147,000 x 1/3)		49,000	1
Less: Acquisition cost			
General value of the plot in Platres on 1 January 1980 (€36,000 x 1/3)	(12,000)		1
Add: Indexation allowance (€12,000 x (115.77/34.96) – €12,000)	(27,738)		1
		(39,738)	
Capital gain		9,262	
Less:			
General lifetime exemption (not used in the past)		(9,262)	1
Chargeable gain		0	
			4

- (c) A gift of immovable property is not subject to capital gains tax if made from a parent to child (whether the child is married or unmarried), between husband and wife, or between close relatives.
- 1
- 10**

4 (a) Amalia Holdings Ltd

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|------|---|----------|
| (i) | The objection must be submitted by 31 July 2015 (the end of the month following that in which the notice of assessment is received). | 1 |
| (ii) | The Tax Department has a period of three years from the filing of the objection in which to review the case and determine the final assessment. | 1 |
| | During this examination period, the Commissioner may require additional information from the taxpayer such as accounts, bank statements, etc. | ½ |
| | The period of three years may be increased by any period of delay on the part of the taxpayer. | 1 |
| | After the examination is finalised, with or without agreement, the Commissioner determines the final assessment. | ½ |
| | When the final determination of an objection cannot be made within the examination period (of three years or as extended), the Commissioner is bound to accept the original tax return. | 1 |
| | | <u>4</u> |

(b) Metamorphosis Ltd

	€	
Monetary charge payable as the return was not submitted in time	100	1
5% additional tax: (5% x €10,000)	500	1
5% monetary charge: (5% x €10,000)	500	1
Interest: (4% x €10,000 x 10/12)	333	2
	<u>1,433</u>	
		<u>5</u>
		<u>10</u>

Tutorial notes:

1. The 5% additional tax is payable as the tax was neither paid on time nor within the grace period.
2. The 5% monetary charge and interest are payable as the tax was not paid on time.
3. Interest is payable from 1 August 2016 to 31 May 2017, i.e. the number of complete months from the due date to the actual date of payment.

5 Hercules Holdings Ltd group of companies

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| (a) | The interest paid by Hercules Holdings Ltd (HHL) on the bank loan for the acquisition of shares in its subsidiary companies is not a tax deductible expense because the loan is for the purchase of shares in companies which are not 100% subsidiaries. | 1 |
| (b) | Alcmene Ltd (AL) does not form part of the HHL tax group, as it was not a 75% subsidiary for the whole of the year 2015. | 1 |
| | Zeus Ltd (ZL) is a Cyprus tax resident company which has been an 80% subsidiary of HHL for the whole of the year 2015, so is a member of the HHL tax group. | 1 |
| | Hydra (Utopia) Ltd (HUL), despite being incorporated in Utopia, is a Cyprus tax resident company as its management and control is exercised in Cyprus. | 1 |
| | Therefore, as it has been an 80% subsidiary of HHL for the whole of the year 2015, HUL is a member of the HHL tax group,. | ½ |
| | Iphikles Ltd (IL) does not form part of the HHL tax group, as it was not a Cyprus tax resident company for the tax year 2015. | ½ |
| | | <u>4</u> |

(c) Corporation tax for 2015

	HHL €'000	AL €'000	ZL €'000	HUL €'000	
Trading profit/(loss)	1,000	100	(150)	(175)	
Add: Not allowed expenses					
Interest paid in respect of the bank loan by HHL (as per part (a))	55				1/2
Add: Income not included in trading profits/losses					
Capital gain on the sale of shares in HUL (exempt)	0				1
Interest received on loans to group companies (taxable – trade income)	120				1
Profit from the Nordan branch (exempt – non-exemption rule does not apply)			0		1
Foreign permanent establishment loss relief recapture			150		1
Dividend received from AL/IL(exempt)	0		0		1/2
Rental income (working)		128			1/2
	<u>1,175</u>	<u>228</u>	<u>0</u>	<u>(175)</u>	
Less: Group loss relief	(175)			175	1
Taxable profit	<u>1,000</u>	<u>228</u>	<u>0</u>	<u>0</u>	
Corporation tax liability at 12.5%	125	28.5	0	0	1/2
Working: Rental income					
				€	
Lease premium (fully taxable in the year of receipt)				100	1
Rental income				36	1/2
				<u>136</u>	
Less:					
Repairs				(5)	1/2
Wear and tear (3% x (€130,000 – €30,000))				(3)	1
				<u>128</u>	
					<u>10</u>
					15

6 Mr Thanasis

(a) Income tax liability for 2015

	€	€	
State pension (€1,800 x 13 months)		23,400	1
Cancelled life insurance policy premiums recapture (€1,500 x 2 years x 30%)		900	2
Salary from part-time job		6,500	1
Car benefit (60% x €3,500)		2,100	1
Rental income (50% x €30,000)	15,000		1/2
Less:			
20% statutory deduction (20% x €15,000)	(3,000)		1
Repairs paid (not deductible)	0		1
Wear and tear (3% x (€300,000 – €80,000) x 50%)	(3,300)		1
Loan interest paid (50% x €1,000)	(500)		1/2
		<u>8,200</u>	
Net income		41,100	
Less: Personal allowances			
Social insurance contributions (retired person)	0		1/2
Life insurance premium (policy was cancelled)	0		1/2
		<u>0</u>	
Taxable income		<u>41,100</u>	

	€	Marks
Income tax liability:		
€0–€19,500 at 0%	0	
€19,501–€28,000 at 20%	1,700	
€28,001–€36,300 at 25%	2,075	
€36,301–€41,100 at 30%	1,440	
	<u>5,215</u>	<u>1</u>
		<u>11</u>
(b) A taxable car benefit arises when a car is provided by reason of their employment to an employee, or a member of their family, for private use.		1
The amount of the benefit depends on the extent of the private use.		½
‘Private use’ for this purpose also includes travelling from home to work.		½
There are no specific regulations prescribing the amount of a car benefit. The amount must be agreed in each case between the Tax Department and the taxpayer on the basis of the annual expenses paid by the employer in respect of the particular car.		1
Annual car expenses include the fuel cost, car insurance, repairs and car road tax.		½
The amount of the taxable benefit equals the annual car expenses multiplied by the percentage of private use.		½
		<u>4</u>
		<u>15</u>